The Financial Front in the Global War on Terrorism

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> We will direct every resource at our command to win the war against terrorists: every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence. We will starve the terrorist of funding, turn them against each other, rout them out of their safe hiding places, and bring them to justice.
>
> President George W. Bush
> September 24, 2001

Since the terrorist attacks of September 11, 2001, the United States has aggressively executed the Global War on Terrorism on many different fronts. The approval of Executive Order 13224 on September 24, 2001, marked a bold initial step toward targeting terrorists' financial networks. The success of terrorist organizations is dependent upon these financial networks because though terrorist attacks are not necessarily expensive, the support of international terrorist networks, training camps, command and control, and infrastructure requires either a large reserve of available finances or the ability to raise significant funding. Estimates of al-Qaeda's current funding vary widely, but it is believed that prior to the Taliban's removal from power, al-Qaeda's annual expenses were at least $36 million on top of an initial fixed cost of approximately $50 million for equipment and infrastructure.[1]

However, while it is expensive, terrorism is not a profitable economic enterprise. Unlike organized crime, human trafficking, the narcotics trade, or other illegal activities, terrorism requires an independent source of financing to begin and continue its operations. Terrorist organizations also require a method of distributing these funds around the world in order to conduct their operations on a global scale.

Because terrorist organizations must raise, move, and use money, aggressively pursuing terrorists on a financial front can and should be an integral component of any counter-terrorism strategy. There are three different but interrelated dimensions of this front that either target

terrorists' financial networks or capitalize on terrorists' dependency of finances. Focusing on these aspects of terrorists' finances can contribute to the disruption of terrorists' financial support as well as aid in the identification and, ultimately, the destruction of terrorist organizations.

First, the government can freeze and block financial assets by labeling individuals or organizations as terrorists or as being associated with terrorism. These actions degrade terrorists' access to funds and increase the costs of raising, transferring, and using funds. This may reduce the resources that terrorists can use to execute attacks and, hence, the geographic scope and lethality of their attacks.

Second, tracking the movement of funds among individuals in terrorist groups and their supporters provides verifiable indications of associations, relationships, and networks. Understanding these financial linkages provides an extremely useful, tangible complement to the connections that are developed from human, signal, open source, and other forms of intelligence. Through a coordinated system of collection, reporting, and analysis, this intelligence can assist authorities in identifying and locating terrorist organizations and their financial support networks

Third, many of the acts in which terrorist networks engage to raise and move funds are *per se* illegal and would be illegal even if the individuals involved were not associated with terrorism. Terrorists and their financial supporters frequently commit illegal fund raising, money laundering, tax evasion, fraud, and international currency violations. Thus, prosecuting individuals for financial crimes can be effective in coordinating the efforts of law enforcement authorities, can facilitate international investigations, and ultimately may lead to the imprisonment of terrorists.

With this framework we examine some of the actions taken and lessons learned by the multiple agencies, corporations, and individuals that have all played critical roles on the financial

front in the global war on terrorism. This analysis reveals insights into the uses and implications of these tactics and how they can effectively fit into an overall campaign to combat terrorism. More importantly, the lessons demonstrate how these tactics are interrelated and will be most effective if law enforcement, financial, intelligence, and military personnel are able to use selective actions against specific terrorist targets.

Freezing and Blocking Financial Assets

The freezing and blocking of financial assets have been the most publicized government actions attacking terrorist financing since September 11th. Executive Order 13224 gives the secretary of the treasury the authority to freeze the financial assets of terrorists, terrorist organizations, and those associated with terrorist groups and to impose controls on transactions with these entities. Such sanctions are executed and administered by the Treasury Department's Office of Foreign Assets Control (OFAC) with additional enforcement by the department's Financial Crimes Enforcement Network (FinCEN). OFAC maintains and publishes the list of Special Designated Nationals and Blocked Person (SDNs) in the Federal Register, and U.S. businesses, including banks and securities-brokers, are prohibited from executing financial transactions with these persons and groups, or their aliases.

These sanctions are intended to deny terrorists and their associates access to international financial systems and to significantly increase the cost of raising, transferring, and using funds. Freezing assets cuts off the terrorists' money supply, and blocking transactions prevents terrorists from moving the money around. The combination of these two effects simultaneously accomplishes two key strategic objectives. First, decreasing terrorists' resources and disrupting their ability to raise funds reduces their operational capabilities in terms of the sophistication,

degree of synchronization, and lethality of their attacks. Second, denying terrorists the ability to transfer funds internationally isolates them and reduces the geographical scope of their activities and operations. These two outcomes support the overall objective of the national counter-terrorism strategy, which is to contain terrorism within the domain of national law enforcement.

Before September 11th, the secretary of the treasury had the authority to impose these sanctions, but actions were mostly taken against hostile nations and narcotics traffickers. Executive Order 13224 significantly expanded the authority of the secretary of the treasury to designate for blocking actions not just terrorists and terrorist organizations but also individuals and organizations *associated with* terrorists. Additionally, the order broadened the scope of the sanctions' coverage from terrorism in the Middle Eastern to global terrorism. Because these blocking actions are based upon foreign policy, they are not subject to the same evidentiary standards as criminal proceedings. Moreover, evidence to support an order to block transactions and freeze assets may come from classified sources that do not have to be revealed to anyone other than a reviewing court.[2]

Financial institutions are required to maintain updated SDN lists and to report both the holding of frozen assets and any attempts to conduct transactions to or from an account of a designated individual or group, regardless of whether the designated individual holds the account within the U.S. Businesses report matches to the SDN list and any suspected money laundering activity to FinCEN via Suspicious Activities Reports (SARs) in accordance with the Bank Security Act. To comply with these regulations, most banks have developed sophisticated account databases for verifying the legitimacy of transactions. To improve the fidelity in scrutinizing transactions, the 2001 USA PATRIOT Act[3] requires minimum identity verification standards for account holders. However, these standards have proven to be especially

problematic for securities brokers, who often conduct business through mail and by phone. The rules have become so troublesome that a recent Securities Industry Association Anti-Money Laundering Compliance Conference focused on clarifying the complicated and sometimes opaque legal requirements of the PATRIOT Act and methods of ensuring compliance.[4]

By September 2002, 236 individuals and groups had been designated for blocking actions, including 112 individuals and seventy-four front organizations and charities, and $34 million in assets had been frozen in the U.S. with another $78 million in assets frozen overseas.[5] In most cases, these are multilateral sanctions that involve close cooperation with other governments. In fact, INTERPOL serves as the international clearinghouse for foreign law enforcement agencies for the lists of sanctioned individuals and organizations.[6]

The government has especially highlighted how effective these sanctions have been in disrupting the fund-raising of terrorists' front organizations and charities. Officials have dismantled the al-Barakaat worldwide financial network, which channeled several million dollars yearly to al-Qaeda, and the Holy Land Foundation for Relief and Development, which claimed to be largest U.S.-based Islamic charity and provided millions of dollars to the Hamas terrorist organization. OFAC has also blocked the assets of the Global Relief Foundation (GRF) and the Benevolence International Foundation, two other charities with U.S. branches and alleged ties to terrorist organizations.[7] The GRF claims that it is a legitimate charity that is suffering from the poisonous effects of these financial sanctions. It has filed lawsuits against the government as well as defamation suits against The New York Times, The Boston Globe, and the Associated Press.[8]

In addition to attacking terrorists' finances in the formal financial sector, the government has placed increased scrutiny on the surreptitious movement of funds through the underground

banking system. Informal Value Transfer Systems, known as *hawalas* in the Muslim world, are infamous methods of transferring or laundering money internationally. Because *hawalas* rarely maintain detailed records or require individual identification, they allow terrorists to covertly raise funds and to move these funds around the world without a trace. With the passing of the USA PATRIOT Act, *hawalas* operating in the U.S. are required to register as "money service businesses," which subjects them to money laundering regulations, including the requirement that they file SARs and Currency Transaction Reports for transactions involving more than $10,000. More than 10,000 money service businesses are now registered with the Treasury Department, which means the government now has some visibility into a previously unregulated financial arena.[9] Additionally, the USA PATRIOT Act criminalizes the transfer of funds that the business owner knows are the proceeds of a crime or are intended to be used in unlawful activity.

Admittedly, however, there may be some limits to the effectiveness of these sanctions. Conduits for money transferring may be created through countries with limited bank supervision, ineffective enforcement of money laundering laws, or governments that tend to "look the other way." Though more than 165 countries have issued blocking orders against terrorists' assets,[10] the Council on Foreign Relations and other foreign policy analysts have severely criticized the degree of scrutiny exercised in the enforcement of these actions in some nations, particularly Saudi Arabia.[11] In fact, the council estimates that only a small fraction of al-Qaeda's available assets have been frozen.[12] However, the Bush administration has downplayed this criticism by noting that more than eighty countries have implemented or are in the process of implementing new laws to combat terrorist financing.[13]

Ultimately, determining the effectiveness of blocking actions in raising terrorists' transaction costs and disrupting terrorists' financial networks will be extremely difficult.

Certainly, it has become more difficult for terrorists to raise and move money, but it is unclear how rapidly organizations discount the blocked assets and pursue other financial channels. It is likely that evidence of how effective these blocking actions are will come through testimony from terrorists and anecdotes of increased frugality in operations[14] or, at best, through decreases in the frequency, lethality, and global range of terrorist attacks.

The Intelligence Aspects of Terrorists' Finances—Following the Money

The second dimension of the financial front of the Global War on Terrorism involves the invaluable intelligence investigators can gain from "following the money." Because financial transactions are normally well-documented, identifying the financial structure of terrorist groups and tracking the movement of funds can provide a hard evidence trail of associations, relationships, and networks. This evidence can ultimately allow authorities in law enforcement, intelligence, the military, and other agencies to identify, locate, and apprehend terrorists. The financial linkages derived from business records provide a tremendous, verifiable complement to the relationships developed from human, signal, and open source intelligence and evidence gained from seized personal records and computers files. The front businesses and charities that raise and launder funds for terrorists are especially susceptible to this line of investigation because they are financial organizations.

The Treasury and Justice Departments attribute many successes in the investigation and dismantling of terrorist organizations to financial intelligence. Shortly after the September 11th attacks, FinCEN and the Federal Bureau of Investigation (FBI) identified the twenty-four bank accounts (all of which were normal checking accounts) that the hijackers held at four different, well-known banks and linked them to their overseas financial support network.[15] Additionally,

the Treasury Department credits over 2,400 arrests in ninety-five countries and the prevention of terrorist attacks in Singapore, Morocco, and Germany in part to intelligence derived from terrorists' financial trails.[16] The capture of financial coordinators such as Mustafa Ahmed Al-Hawsawi, who was apprehended in the raid that also nabbed al-Qaeda operations chief Khalid Sheikh Mohammed, has made officials especially optimistic about windfalls of financial intelligence. Al-Hawsawi provided the financial support for the September 11th hijackers, and the FBI initially identified him by tracing money transfers from Dubai to Florida, New York, and Germany. In another example, the Treasury Department reported that documents found in the Afghan offices of the Wafa Humanitarian Organization, a Pakistan-based al-Qaeda front organization, intimately linked the charity with terrorist assassination plots and the distribution of chemical and biological warfare manuals.[17]

The development of coordinated systems and procedures to effectively analyze and share data between both domestic and foreign agencies is imperative for deriving intelligence value from financial information. Shortly after September 11th, the Department of Justice established the interagency Terrorism Financial Review Group (TFRG) under the FBI as a centralized, comprehensive investigator of terrorist financial matters. The FBI subsequently expanded and restructured the TFRG into the Terrorist Financing Operations Section (TFOS), which has the broad purpose of identifying, investigating, prosecuting, and dismantling all terrorist-related financial and fundraising activities.[18] TFOS's centralized terrorist financial database is critical to its investigations. The database compiles information from subpoenaed account records, Suspicious Activities Reports (of which there were over 265,000 filed in the twelve months after September 11, 2001),[19] Currency Transitions Reports, FBI field office records of foreign bank accounts and wire transfers, and intelligence collected by other agencies.[20] The Herculean task of

mining this data allows authorities to follow known leads and to search for signals, patterns, and profiles of financial activities that may identify new leads on active terrorist operations and potential "sleeper" cells.

Besides the FBI, other agencies involved in investigating terrorist finances include OFAC, FinCEN, the U.S. Customs Service's Operation Green Quest, and, at the international level, the Financial Action Task Force. All of these agencies have publicly acclaimed the importance and benefits of financial investigations for developing evidence, linkages, and new leads to terrorists. Interagency cooperation generates an especially dramatic synergy that seemingly benign financial records separately obtained by different agencies into a critically informative map of terrorist organizations. For example, alias information from intelligence gained in Afghanistan may lead to OFAC blocking actions resulting in a bank filing a SAR, an investigation of transactions with that account, and ultimately, links to a multitude of terrorists, their supporters, and their locations. If properly managed and exploited, these techniques can exponentially generate new leads and confirm or deny previous reports.

Several measures in the USA PATRIOT Act facilitate the thorough and timely interagency information sharing required for more effective investigations and data-mining. The act permits financial institutions, their regulatory agencies, and law enforcement authorities to share information about individuals suspected of engaging in terrorist acts or money laundering. Additionally, the act reduces the complexity of the signature authority requirements for National Security Letters, which are administrative subpoenas issued in counter-terrorism and counter-intelligence investigations. These changes allow more timely and efficient gathering of records and information from financial institutions, credit bureaus, telephone companies, and Internet service providers.[21]

Interagency cooperation and legislative measures that facilitate information sharing are extremely important first steps in increasing the usefulness of all intelligence data. However, these measures generally represent lateral links between otherwise fairly stove-piped organizations. Military, financial, and law enforcement intelligence collection, reporting, and analysis are all conducted by the respective organizations with limited coordinating oversight, as depicted in Figure 1.[22] While intelligence data certainly can be pushed and pulled between agencies, the challenges of this structure are a lack of a centralized direction for intelligence collection and limitations on conducting meta-analysis of information across the different intelligence systems. The absence of such coordination may reduce the usefulness of financial intelligence because it would be difficult to correlate financial intelligence with all other information. Some critics argue that while financial evidence alone is beneficial for proving a case after the fact, it seldom leads to preventing attacks[23] and that searching financial data for suspicious transaction patterns is analogous to looking for a needle in a haystack.

But, a centralized, coordinating entity might better exploit available financial information through improved linkages with other sources of intelligence, affording information dominance and improving our overall picture of terrorists' networks. The creation of the Department of Homeland Security and efforts to consolidate information by the TFOS are significant advances, at least on the domestic side, toward a coordinated information dominance center (as indicated by Figure 2). However, intelligence collection and analysis by internationally focused agencies are not habitually integrated into these processes. Generally, such coordination occurs through *ad hoc* coordinating groups, as described in the next section of this paper that typically operate under regional military commanders. The ultimate goal of this financial intelligence integration

is to enhance the warning of terrorist attacks, to increase law enforcement interdiction, and to improve war-fighting intelligence.

The Law Enforcement Aspects of Terrorists' Finances

Providing material support to terrorists is illegal, and this type of activity also serves as a predicate action for committing other crimes, such as fraudulent fund raising, money laundering, tax evasion, and fraud. Judicious enforcement of criminal statutes that are typically associated with white-collar and organized crime can be an especially effective tactic against terrorists and their financial supporters in two ways.

First, evidence of illegal financial activity provides a nexus between finance and law enforcement authorities and can facilitate international investigations. Even if some governments or businesses fail to recognize that a group is involved in terrorism, financial crimes provide *prima facie* evidence of wrongdoing that can solidify resolve to investigate or otherwise attack those groups. An example of this is the case of a Hezbollah cell discovered in North Carolina during what was initially a cigarette-smuggling and racketeering investigation that led to the indictment of more than twenty terrorist supporters.[24]

Second, just as Al Capone was eventually jailed for tax evasion, prosecuting terrorists and their supporters for their financial crimes may be the most effective way to imprison them. Financial crimes have audit trails that can be substantively proved in court, and prosecutions can sometimes take place without compromising sensitive intelligence that would otherwise have to be revealed to obtain a conviction on specific acts related to terrorism. To date, federal prosecutors have filed criminal complaints and indictments against individuals related to terrorism for many different financial crimes including racketeering, bank fraud, credit card

fraud, money laundering, and embezzlement and many other non-financial crimes such as perjury and identification fraud.

One way to illustrate the impact of using criminal investigation and prosecution in the war on terrorism is to analyze one of the most important and successful post-September 11th prosecutions, that of terrorist financial coordinator Enaam Arnaout. The investigation, indictment, and prosecution of Arnaout also highlights the integration of the previous tactics—blocking assets and following financial transactions—which was crucial to developing the information necessary for identifying Arnaout as a target for an international financial investigation. Additionally, the Arnaout case illustrates the kind of international cooperation that is required to combat terrorism, in this instance between the United States and the Bosnian governments.

The case against Enaam Arnaout started when officials began carefully examined the actions of charitable organizations around the world as potential conduits for terrorist funding and as "covers" for individuals. A detailed New York Times article explained that Bosnia was a logical support area for terrorism:

> Much of the worldwide investigation into suspicious charities focuses on Bosnia, a battle scared country where dozens of Islamic groups set up shop from 1992 to 1995 during ethnic warfare with Serbs and Croats. The groups provided aid to Bosnian Muslims and to Arabs who came to fight with them. Hundreds of charity officials stayed … Western officials said that some charities had another mission: serving as gateways for extremists to infiltrate Europe and receive money. 'Charities are the best cover,' an American official said. 'They do good works with one hand and provide money and cover for terrorists with the other hand.'[25]

OFAC collected information about the finances of one such charity—the Benevolence International Foundation (BIF)—and determined that some of its activities could reasonably be interpreted as support of terrorism. Consequently, OFAC moved to freeze and block BIF's

assets. In an attempt to have these sanctions lifted, Enaam Arnaout, the Executive Director of BIF, made several sworn statements denying any involvement with terrorism.

Simultaneously, authorities in Bosnia and the United States pursued Arnaout's financial transactions and those of several other Bosnian charities. Officials identified transactions that included cash withdrawals of more than $500,000 by Arnaout in the year 2000 alone. One official in the Bosnian government explained, "There is a huge chance . . . that money was used for terrorist operations."[26] Examination of Citibank records revealed nineteen transfers totaling $685,560 sent from BIF to terrorist groups in Chechnya in the first four months of April 2000. Following the financial documentation helped law enforcement and intelligence officials understand BIF's global reach, exposed its support of terrorist activities, and provided additional details about the links and relationships between different terrorist organizations and their supporters.

Eventually, U.S. officials moved beyond blocking assets and gathering intelligence, and identified Enaam Arnaout as the target of a criminal investigation. As Arnaout's indictment eventually explained, the FBI had developed several sources, including confidential informants, who provided information about Arnaout's involvement in terrorist activities and links to Usama Bin Laden.[27] This information was shared with Bosnian authorities, who were able to conduct no-notice searches of eight locations affiliated with BIF in Bosnia. In these locations, authorities recovered computers and other material that unquestionably documented detailed relationships between Usama Bin Laden and Enaam Arnaout.

In Bosnia and in other major regions, the U.S. government has established a Joint Interagency Coordination Group (JIACG) with each regional combatant commander to assist in breaking down the stove-pipe nature of the different agencies involved in intelligence collection

and analysis. As a publication of the Joint Forces Command explains, "The JIACG is as a multi-functional, advisory element that represents the civilian departments and agencies and facilitates information sharing across the interagency community. It provides regular, timely, and collaborative day-to-day working relationships between civilian and military operational planners."[28] Whether a JIACG that operates under the auspices of the military commander is the best solution for coordinating intelligence efforts is open for discussion. But the Arnaout case indicates that some kind of interagency coordination is absolutely essential for success in the war on terrorism.

Interestingly, Arnaout's initial indictment was based on false statements he made in his request that the U.S. release BIF's assets. In refusing bail for Arnaout, Magistrate Ian H. Levin declared, "The reality is that this is not a simple perjury case. It is a perjury charge in the context of a terrorism financing investigation."[29] This indictment led to Arnaout's pleading guilty to racketeering in February 2003 and his subsequent cooperation with authorities. The Arnaout case, the case against the North Carolina Hezbollah cell, and the many other financial crimes indictments against terrorist supporters all emphasize the fact that terrorist fund-raising involves criminal acts beyond terrorism. Actively seeking out offenders of these crimes can significantly disrupt terrorist organizations, and prosecuting offenders for finanicial crimes may prove to be easier and less compromising than prosecutions that are directly related to terrorism.

Conclusions

The ongoing war against terrorism has demonstrated the critical importance of the three main approaches to fighting on the financial front in the global war on terrorism: freezing and blocking assets, following financial transactions to gain intelligence, and prosecuting terrorists

and their supporters for financial crimes. Actions taken along these dimensions and the synergistic effects of using them in concert with each other have been extremely useful in disrupting terrorists' financial networks, helping to identify their global networks, and ultimately, leading to their apprehension. Given this framework for understanding the financial front, several important points warrant mentioning.

First, because the vast majority of terrorists' assets are located outside the U.S., actions on the financial front must be conducted and facilitated at an international level to be most effective. This implies a need for intense international cooperation by developed countries in the establishment of effective financial monitoring capabilities in poorer nations. One of the obvious advantages for investigators in the Arnaout case was that the major investigative actions occurred in Bosnia, a country in which the U.S. had been operating for seven years and where a U.S. commander was in charge of the 36-nation peacekeeping force. The commander, General John Sylvester, praised the actions by the Bosnian Coordination Team and claimed that efforts in Bosnia served as good examples of multiethnic cooperation in fighting terrorism.[30] U.S. officials were full participants in the Bosnian counter-terrorism team. This unique situation not only facilitated cooperation with the Bosnian government, but it also helped integrate the multiple U.S. agencies involved in intelligence, military, and law enforcement operations.

The second important point about the financial war on terrorism is that actions taken in one of the three dimensions can actually degrade the effects of other efforts. For example, once an individual's financial assets have been blocked, that individual is effectively "tipped-off" that he is a terrorist suspect, and he may stop any activities that would be incriminating and would provide useful intelligence. Thus, while cooperation among agencies facilitates the effectiveness of individual actions, the involvement of multiple independent agencies makes the selection and

implementation of a unified strategy problematic. Officials at the highest levels must understand that operational decision making for complex issues, such as when an investigation should transition from monitoring individuals and collecting information to apprehending and prosecuting them, is subject to different agencies' specific goals.

Finally, some of these recommended actions may have deleterious effects on society. They may place burdens on legitimate businesses and could infringe upon privacy rights and other civil liberties. Not only must the government exercise due diligence in prosecuting the war on terrorism; it should also provide as much transparency as security allows when assessing and making decisions regarding these other aspects of the war.

As time progresses, we will learn in greater detail how actions taken on the financial front are useful in dismantling terrorist organizations and whether they are aiding the prevention of terrorist attacks. There should be a continued focus on determining what legislative, organizational, and diplomatic actions can be taken to improve the effectiveness of different approaches. While the nature of terrorism has changed dramatically in the past few decades and may continue to evolve, one constant will remain: terrorist organizations will always require money. As such, targeting terrorists' financial networks and capitalizing on their dependency on finances will be an integral part of the strategy for combating terrorism.

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[12] Council on Foreign Relations, pp. 15-16. This assessment is supported by others including Gunaratna, pp. 65-66.
[13] U.S. Department of the Treasury, p. 20.
[14] Gunaratna, pp. 64-65, gives several examples of thriftiness regarding the financing of terrorists operations.
[15] U.S. Department of the Treasury, p. 20.
[16] U.S. Department of the Treasury, p. 21.
[17] U.S. Department of the Treasury, p. 14.
[18] Lormel, Dennis, "Statement for the Record on USA PATRIOT ACT / Terrorism Financing Operations Sections Before the Senate Judiciary Committee, Subcommittee on Technology, Terrorism, and Government Information," October 9, 2002.
[19] "The SAR Activity Review," February, 2003, p. 5.
[20] Lormel.
[21] Lormel.
[22] These figures are adapted from slides used in a briefing by Admiral Arthur K. Cebrowski, Director of Defense Office of Force Transformation. Admiral Cebrowski emphasized the DoD aspect of intelligence fusion, and we have adapted his concept to include domestic agencies. His original slides were accessed on line at: http://www.oft.osd.mil/library/library_files/briefing_181_Transforming_Defense_13may03.ppt.
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